



PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
ROSWELL, NEW MEXICO

ANNUAL FINANCIAL REPORT
June 30, 2009

De'Aun Willoughby CPA, PC
Certified Public Accountant
Melrose, New Mexico



PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Table of Contents

For the Year Ended June 30, 2009

	<u>Page</u>
Official Roster.....	3
Independent Auditor's Report.....	4

FINANCIAL SECTION

Basic Financial Statements

Government Wide Financial Statements

Statement of Net Assets.....	5
Statement of Revenues, Expenses, and Changes in Net Assets.....	6
Statement of Cash Flows.....	7
Notes to Financial Statements	8-16
Statement of Revenues, Expenditures, and Changes in Cash Balance - Budget (Budgetary Basis) and Actual	17-18
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	19-20
Findings and Responses	21-22

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Official Roster

June 30, 2009

BOARD OF DIRECTORS

Bill Netherlin	Chairman
Greg Alpers	Vice-Chairman
Ben Kerr	Secretary/Treasurer
Dwight Menefee	Assistant Secretary/Treasurer
Richard Smith	Member

ADMINISTRATIVE STAFF

Brent Bullock	Superintendent
Patty Barresi	Secretary

De'Aun Willoughby CPA, PC

Certified Public Accountant

P.O. Box 223 Melrose, NM 88124

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Independent Auditor's Report

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Mr. Balderas and Members of the Board

We have audited the accompanying basic financial statements of the business-type activities of the Pecos Valley Artesian Conservancy District (District), as of and for the year ended June 30, 2009, as listed in the table of contents. We have also audited the budget comparison presented as supplementary information in the accompanying financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects, the financial position of the business-type activities of the District as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, the financial statements referred to above present fairly in all material respects the budgetary comparison of the District for the year ended June 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2009 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements and budgetary comparisons presented as supplemental information.

De'Aun Willoughby CPA PC

September 14, 2009

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Government-Wide Statement of Net Assets

June 30, 2009

ASSETS

Current Assets

Cash in Banks	\$ 5,341,471
Property Taxes Receivable	21,184
Interest Receivable	74,916
Inventory	85,490
Prepaid Expenses	30,732
Total Current Assets	<u>5,553,793</u>

Non-current Assets

Capital Assets

Land	61,405
Buildings & Improvements	307,099
Meters	626,924
Vehicles & Equipment	648,601
Less Accumulated Depreciation	<u>(635,212)</u>
Total Capital Assets	1,008,817

Conservation Loans Receivables	2,374,736
Water Rights	<u>3,959,628</u>
Total Non-current Assets	<u>7,343,181</u>

Total Assets	<u>12,896,974</u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	<u>206,316</u>
Total Current Liabilities	<u>206,316</u>

Non-current Liabilities

Compensated Absences	<u>21,985</u>
Total Non-current Liabilities	<u>21,985</u>

Total Liabilities	<u>228,301</u>
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Net Assets

Total Net Assets	<u>12,668,673</u>
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\$ 12,668,673

The notes to the financial statements are an integral part of this statement.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Government-Wide Statement of Revenues, Expenses, and Changes in Net Assets

June 30, 2009

Operating Revenues	
Meter Sales and Other Operating Revenues	\$ <u>25,898</u>
Operating Expenses	
Salaries	239,858
Employee Benefits	202,993
Legal Fees	279,208
Services	31,957
Co-op and Joint Powers Agreements	112,763
Insurance and Bonds	13,511
Irrigation Meter Supplies	110,548
Directors-Travel, Meetings and Conferences	41,207
Maintenance	16,510
Water Master	484,881
Supplies	3,091
Utilities	12,685
Office	11,106
Plugging Expenses	12,964
Government Affairs	17,938
Fuel	11,617
Bank Charges	11,240
Depreciation	125,280
Miscellaneous	16,429
Total Expenses	<u>1,755,786</u>
Operating Income (Loss)	<u>(1,729,888)</u>
Nonoperating Revenues (Expenses)	
Property Taxes	1,853,019
Tax Collection Expenses	(19,416)
Interest Income	191,510
	<u>2,025,113</u>
Change in Net Assets	295,225
Net Assets at Beginning of Year	<u>12,373,448</u>
Net Assets at End of Year	<u>\$ <u>12,668,673</u></u>

The notes to the financial statements are an integral part of this statement.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Cash Flows

June 30, 2009

Cash Flows from Operating Activities	
Receipts from Customers and Users	\$ 25,898
Payments to Employees and Suppliers	(1,409,864)
Net Cash Provided by Operating Activities	<u>(1,383,966)</u>
Cash Flows from Non-capital Financing Activities	
Property Taxes	1,853,018
Tax Collection Expense	(19,417)
Net Principal collected for the Conservation Loans	<u>144,040</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>1,977,641</u>
Cash Flows from Capital & Related Financing Activities	
Purchase of Capital Assets	<u>(137,324)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(137,324)</u>
Cash Flows from Investing Activities	
Interest Income	<u>191,510</u>
Net Cash Provided by Investing Activities	<u>191,510</u>
Net Increase (Decrease) in Cash	647,861
Cash, Beginning of Year	<u>4,693,610</u>
Cash, End of Year	<u>\$ 5,341,471</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities	
Operating Income	\$ (1,729,888)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	125,280
(Increase) Decrease in Property Taxes Receivable	88,584
(Increase) Decrease in Interest Receivable	(25,866)
(Increase) Decrease in Inventory	10,809
(Increase) Decrease in Prepaid Expenses	(30,732)
Increase (Decrease) in Accounts Payable	171,548
Increase (Decrease) in Taxes Payable	(86)
Increase (Decrease) in Compensated Absences	<u>6,385</u>
Net Cash Provided by Operating Activities	<u>\$ (1,383,966)</u>

The notes to the financial statements are an integral part of this statement.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2009

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pecos Valley Artesian Conservancy District (District) was created by Order of the District Court of Chavez County, New Mexico after the necessary action had been taken pursuant of the provisions of Article XIII of Chapter 25 of the New Mexico Statutes 1953 annotated. More specifically, the District was created to conserve, where necessary, the waters of the Roswell Artesian Basin ("the Basin"), including the lands within the Basin located in both Chaves and Eddy Counties, New Mexico.

The District is governed by five directors, each representing one of the five divisions into which the District is divided. The directors are elected to a six-year term by the registered voters of their respective division of the District and must, at the time of election, be a registered voter and resident of that division.

Annually, the Board of Directors outlines a water conservation plan and makes estimates of the cost of administration, equipment and improvements necessary to carry out the plan. Historically, the Board of Directors has felt that it was beneficial for the Basin to purchase and retire water rights. The purchased water rights are held in the District's water conservation "bank" and, under board policy are not sold, but are retired for the purpose of assisting in stabilizing water consumption in the Basin.

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental entities (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, Financial Accounting Standards Board (FASB) Statements and Interpretations and applicable Accounting Principles Board (APB) pronouncements. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements. The more significant of the PVACD's accounting policies are described below.

Financial Reporting Entity

The District's reporting entity is solely the proprietary fund which records revenues and expenses of the water conservation function. It is not a component unit of another entity nor does it operate any other component units.

The accounts of the District are organized on the basis of one fund and are considered a separate accounting entity. The operations of the fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. In this report, the fund is presented in the financial statement as a proprietary fund.

Proprietary Fund:

Enterprise Fund - The Enterprise fund is used to account for all revenues. The District's revenues consist of (a) interest income and tax revenues used for conservation projects and (b) sales of water meters and miscellaneous receipts. The District operates in a manner similar to a private business enterprise - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered through user charges (meter sales and interest on conservation loans) and county taxes; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability or other purposes.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2009

Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities associated with their activity are included on the balance sheet. Their reported net assets are segregated into invested capital assets, net of related debt, restricted and unrestricted components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Basis of Presentation

The District is engaged in business-type activity only. The financial statements (the statement of net assets, statement of revenues, expenses and changes in net assets and the statement of cash flows) report information on all of the activities of the District.

Special Conservation Loans

The New Mexico Interstate Stream Commission (the "Commission") makes loans to the District, which, in turn makes loans to qualified borrowers. Loans from the Commission to the District provide for repayment in 20 equal annual installments with interest at 2.5%. Loans from the District to qualified borrowers provide for repayment in 10 equal annual installments with interest at 3.5 %. The District is required to maintain a separate account (the District uses Bank of America) for these funds and to repay the Commission by July 1 of each year, any excess of loan funds over \$50,000 plus June's interest income. The District, customarily, makes such payment in mid-June so that the ISC receives the payment before June 30 and maintains the \$50,000 allowed by the Commission plus June interest and any funds received from loans, which have not been finalized as of June 30. Expenses other than interest, are minimal in amount. The District did not owe the Commission on June 30, 2009.

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resource measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

The revenues susceptible to accrual are charges for services and interest income.

Budgetary Control

The District is required by state law to adopt annual budgets prepared on a cash basis. New Mexico's legal level of budgetary control is at the fund level. Budgetary and actual financial statements are presented without amendment for the year ending June 30, 2009.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2009

The District is authorized under the provisions of Chapter 6, Article 10, paragraph 10, NMSA 1978, to deposit its money in banks, savings and loan associations and/or credit unions whose accounts are insured by an agency of the United States.

Investments

All money not immediately necessary for the public uses of the District may be invested in :

(a) bonds or negotiable securities of the United States, the state or any county, municipality which has a taxable valuation of real property for the last preceding year of at least one million dollars (1,000,000) and has not defaulted in the payment of any interest or sinking fund obligation or failed to meet any bonds at maturity at any time within five years last preceding; or

(b) securities that are issued by the United States government or by its agencies or instrumentalities and that are either direct obligations of the United States or are backed by the full faith and credit of the United States government or agencies guaranteed by the United States government.

(c) in contracts with banks, savings and loan associations or credit unions for the present purchase and resale at a specified time in the future of specific securities at specified prices at a price differential representing the interest income to be earned by the investor. The contract shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with the investment. The contract shall be fully secured by obligations of the United States having a market value of at least one hundred two percent of the contract. The collateral required for investment in the contracts provided for in this subsection shall be shown on the books of the financial institution as being the property of the investor and the designation shall be contemporaneous with investment.

Receivables and Payables

Receivables include amounts due from customers for sales and service. Payables represent routine monthly bills for services rendered and products purchased and accrued salaries and benefits.

Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets are reported in the financial statements. Capital assets are recorded at historical costs and depreciated over their estimated useful lives (with no salvage value). Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Donated capital assets are recorded at their estimated fair market value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used based on the following estimated useful lives:

Buildings & Improvements	20-50 Years
Field Equipment and Vehicles	15-40 Years
Drilling Rig	80 Years
Equipment	3-15 Years

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2009

Compensated Absences

District employees earn vacation and sick leave at the rate of ten (10) hours and eight (8) hours per month, respectively. In the event of termination, an employee is reimbursed for accumulated vacation, but is not reimbursed for accumulated sick leave. However, employees who have accrued sick leave in excess of 600 hours are entitled to sell all hours over the 600 limit back to the District at one-half the normal rate of pay. The estimated liability is \$21,985 for vacation. The estimated amount for sick leave benefits over 600 hours is not accrued as a liability since this is not payable upon employee termination.

Revenue

Sales of meters, considered operating revenues are recorded as sold. Property taxes, considered non-operating, non-exchange revenues, are levied by Chaves and Eddy Counties on November 1 based on the assessed value of property as listed on the previous January 1 and are due in two payments by November 10th and April 10th. Property taxes uncollected after November 10th and April 10th are considered delinquent and Chaves and Eddy Counties may assess penalties and interest. The taxes attach as an enforceable lien on the property thirty (30) days thereafter, at which time they become delinquent. The Counties remit to the District its share of taxes collected monthly. Interest revenues, also considered non-operating, non-exchange revenues, are received on loans to ranchers and farmers for conservation projects and equipment.

Net Assets

Net Assets comprise the various earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. "Invested in capital assets" consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets, debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. "Restricted net assets" consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. "Unrestricted net assets" consist of all other net assets not included in the above categories.

Restricted Net Assets

For the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net assets use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;

Imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available it will first be applied to restricted resources.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2009

NOTE B: CASH AND INVESTMENTS

The District is required by New Mexico State Statute (Section 6-10-17) to be 50% collateralized. Following is a schedule calculating the requirement and disclosing the pledged securities.

<u>Name of Account</u>	Bank Balance 06-30-09	Reconciled Balance	Type
Pecos Valley Artesian Conservancy District	\$ 32,057	\$ 32,057	Checking
Pecos Valley Artesian Conservancy District	1,303,506	1,280,792	Savings
Pecos Valley Artesian Conservancy District-Repo	1,317,641	1,317,641	Savings
Pecos Valley Artesian Conservancy District	1,000	1,000	Checking
Pecos Valley Artesian Conservancy District	501,933	501,933	Savings
TOTAL Deposited	<u>3,156,137</u>	<u>\$ 3,133,423</u>	
Less: FDIC Coverage	<u>(283,057)</u>		
Uninsured Amount	2,873,080		
50% collateral requirement	777,720		
102% collateral requirement	1,343,994		
Pledged securities	<u>(803,646)</u>		
Over (Under) requirement	<u>\$ (1,318,068)</u>		

The following securities are pledged at **1st American**:

<u>Description</u>	<u>Type</u>	<u>CUSIP #</u>	Market or Par Value*	<u>Maturity Date</u>
MBS FNMA	Bond	31405CLZ0	\$ 131,167	06/01/2019
MBS FHLMC GOLD	Bond	31296EY5	71,753	10/01/2018
MBS FHLMC GOLD	Bond	31282CKC0	82,929	07/01/2018
MBS GNMA	Bond	36200M2N2	45,469	11/15/2018
FHLB 1time CALL	Bond	3133XGSE5	212,518	09/08/2016
MBS FHLMC GOLD	Bond	312966P24	84,810	05/01/2014
BELEN NM CONS SCHOOL	Bond	077581MQ6	175,000	08/01/2020
			<u>\$ 803,646</u>	

The above securities are located at FHLB Dallas, Texas.

<u>Name of Account</u>	Bank Balance 06-30-09	Reconciled Balance	Type
Pecos Valley Artesian Conservancy District	\$ 200,000	\$ 200,000	Savings
TOTAL Deposited	<u>200,000</u>	<u>\$ 200,000</u>	
Less: FDIC Coverage	<u>(200,000)</u>		
Uninsured Amount	0		
50% collateral requirement	0		
Pledged securities	<u>0</u>		
Over (Under) requirement	<u>\$ 0</u>		

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2009

Western Bank

Name of Account	Bank Balance 06-30-09	Reconciled Balance	Type
Pecos Valley Artesian Conservancy District	\$ 200,000	\$ 200,000	Savings
TOTAL Deposited	200,000	200,000	
Less: FDIC Coverage	(200,000)		
Uninsured Amount	0		
50% collateral requirement	0		
Pledged securities	0		
Over (Under) requirement	\$ 0		

First Federal

Name of Account	Bank Balance 06-30-09	Reconciled Balance	Type
Pecos Valley Artesian Conservancy District	\$ 808,048	\$ 808,048	Savings
TOTAL Deposited	808,048	808,048	
Less: FDIC Coverage	(250,000)		
Uninsured Amount	558,048		
50% collateral requirement	279,024		
Pledged securities	620,776		
Over (Under) requirement	\$ 341,752		

The following securities are pledged at First Federal:

<u>Description</u>	<u>Type</u>	<u>CUSIP #</u>	<u>Market or Par Value*</u>	<u>Maturity Date</u>
FNMA 883004	Bond	31410AAD8	\$ 620,776	07/01/2036
			\$ 620,776	

The above securities are located at FHLB Dallas, Texas.

Bank of the Southwest

Name of Account	Bank Balance 06-30-09	Reconciled Balance	Type
Pecos Valley Artesian Conservancy District	\$ 500,000	\$ 500,000	Savings
Pecos Valley Artesian Conservancy District	500,000	500,000	Savings
TOTAL Deposited	1,000,000	1,000,000	
Less: FDIC Coverage	(250,000)		
Uninsured Amount	750,000		
50% collateral requirement	375,000		
Pledged securities	375,000		
Over (Under) requirement	\$ 0		

The following securities are pledged at Bank of the Southwest:

<u>Description</u>	<u>Type</u>	<u>Market or Par Value*</u>	<u>Maturity Date</u>
FHLB	Letter of credit	\$ 375,000	7/15/2009
		\$ 375,000	

The above securities are located at FHLB Dallas, Texas.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2009

Custodial Credit Risk-Deposits

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ 1,183,057
Collateralized:	
Collateral held by the pledging bank in District's name	1,736,694
Uninsured and uncollateralized	<u>2,444,434</u>
Total Deposits	<u>\$ 5,364,185</u>

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2009 \$2,477,491 of the District's bank balance of \$5,364,185 was exposed to custodial credit risk.

NOTE C: ACCOUNTS RECEIVABLE

Receivables as of June 30, 2009, were as follows:

<u>Receivables</u>	<u>Total</u>
Property Taxes	\$ 21,184
Interest	74,916
	<u>\$ 96,100</u>

NOTE D: CONSERVATION LOANS RECEIVABLE

Loans made to approved applicants are payable annually over a ten year period. Interest at the rate of 3.5% per annum is payable with each installment. Changes in loan balances were as follows:

	Beginning Balance <u>June 30, 2008</u>	Additions	Payments	Ending Balance <u>June 30, 2009</u>
Conservancy Loans	\$ <u>2,898,610</u>	\$ <u>0</u>	\$ <u>523,874</u>	\$ <u>2,374,736</u>

NOTE E: CAPITAL ASSETS

Capital Assets Balances and Activity for the Fiscal year, is as follows:

	Beginning Balance <u>June 30, 2008</u>	Additions	Deletions	Ending Balance <u>June 30, 2009</u>
Business-type Activity				
Capital Assets not being Depreciated				
Land	\$ 61,405	\$ 0	\$ 0	\$ 61,405
Other Capital Assets				
Buildings	307,099	0	0	307,099
Meters	538,980	87,943	0	626,923
Field Equipment	60,301	0	0	60,301
Office Furniture & Equipment	298,065	7,675	0	305,740
Vehicles & Drilling Rig	<u>240,856</u>	<u>41,705</u>	<u>0</u>	<u>282,561</u>
Total Capital Assets at Historical Cost	<u>\$ 1,506,706</u>	<u>\$ 137,323</u>	<u>\$ 0</u>	<u>\$ 1,644,029</u>

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2009

Accumulated Depreciation				
Buildings	\$ 71,189	\$ 7,641	\$ 0	\$ 78,830
Meters	170,972	41,795	0	212,767
Field Equipment	14,577	3,605	0	18,182
Office Furniture & Equipment	116,542	56,426	0	172,968
Vehicles \$ Drilling Rig	136,652	15,813	0	152,465
Total Accumulated Depreciation	<u>509,932</u>	<u>125,280</u>	<u>0</u>	<u>635,212</u>
Total Business-type Activities				
Capital Assets, net	\$ <u>996,774</u>	\$ <u>12,043</u>	\$ <u>0</u>	\$ <u>1,008,817</u>

NOTE F: COMPENSATED ABSENCES

	Beginning Balance <u>June 30, 2008</u>	Additions	Reductions	Ending Balance <u>June 30, 2009</u>
Other Liabilities				
Compensated Absences	\$ 15,601	\$ 16,472	\$ (10,088)	\$ 21,985
Total Other Liabilities	\$ <u>15,601</u>	\$ <u>16,472</u>	\$ <u>(10,088)</u>	\$ <u>21,985</u>

None of the Compensated Absences are due within the next year.

NOTE G: PREPAID EXPENSE

Prepaid balances are for payments made by the District in the current year to provide services that are applicable to future accounting periods.

NOTE H: RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS STATEMENTS

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - all Governmental Fund Types is presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and GAAP (Generally Accepted Accounting Principles) basis are that:

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

The adjustments necessary to convert the results of operations for the year from GAAP basis to the budget basis for the governmental funds are as follows:

Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses:

Revenues over Expenditures Budgetary Comparison Statements-Budgetary Basis	\$ <u>503,821</u>
Adjustments:	
Depreciation	(125,280)
Capital Purchases	137,324
Increase(decrease) in:	
Property Taxes Receivable	(88,583)
Interest Receivable	25,867

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Notes to the Financial Statements

June 30, 2009

Inventory	(10,809)
Prepaid Expenses	\$ 30,732
(Increase)decrease in:	
Accounts Payable	\$ (171,548)
Gross Receipts Tax Payable	86
Compensated Absences	(6,385)
	<u>(208,596)</u>
Net Change in Net Assets	\$ <u>295,225</u>

NOTE I: PERA PENSION PLAN

Substantially all of the District's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association ("PERA") is the administrator of the plan, which is a cost sharing multiple employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits, and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Plan members are required to contribute 13.15 percent of their gross salary. The District has elected to be responsible for making contributions of seventy-five percent of its employee's member contributions to PERA plus 9.15% as required by State Statute. The contribution requirements of plan members and the District are established under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The District's contribution to PERA for the years ending June 30, 2009, 2008, 2007 were \$58,800, \$57,962, and \$57,366 respectively, equal to the amount of the required contributions for each year.

NOTE J: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets. To insure protection against these risks, the District purchases commercial coverage for Workers Compensation, hazard, liability and health insurance. Deductibles range from \$100 to \$500 per claim. Insurance is reviewed on an annual basis to determine that the coverage is adequate. Each employee has the option to be covered by the health insurance with 100% of the individual premium paid by the district.

NOTE K: SURETY BONDS

The Directors and certain employees of the District are covered by a surety bond as required by Section 12 6-7, NMSA, 1978 Compliance and State Auditor's Rule 89-1.

NOTE L: RELATED PARTY TRANSACTIONS

Directors on the Board of the District are recipients of water sales and services. These transactions are correctly considered arm's-length transactions since these related parties are subject to the same installation, invoicing, payment expectations, and late payment procedures as all the District customers.

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Statement of Revenues, Expenditures, and Changes in Cash Balance -
Budget and Actual (Budgetary Basis)

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final to Actual
	Original	Final		
Revenues				
Property Taxes	\$ 1,834,154	\$ 1,834,154	\$ 1,941,603	\$ 107,449
Sales & Service	10,000	10,000	25,898	15,898
Interest Income	84,801	84,801	165,643	80,842
Gross Profit	<u>1,928,955</u>	<u>1,928,955</u>	<u>2,133,144</u>	<u>204,189</u>
Expenditures				
Salaries	325,000	325,000	263,672	61,328
Employee Benefits	262,500	262,500	204,342	58,158
Legal Fees	610,000	610,000	255,844	354,156
Services	75,000	75,000	31,882	43,118
Utilities	20,000	20,000	11,629	8,371
Insurance	52,200	52,200	44,243	7,957
Office	25,000	25,000	10,367	14,633
Supplies	35,000	35,000	3,106	31,894
Maintenance	132,738	132,738	16,607	116,131
Meter Supplies	200,000	200,000	99,890	100,110
Capital Outlay	300,000	300,000	137,324	162,676
Travel	20,000	20,000	41,207	(21,207)
Cont Education	50,000	50,000	15,239	34,761
Basis Water Master	383,200	383,200	380,787	2,413
Tax Collection Expenses	25,000	25,000	19,416	5,584
Plugging Expenses	105,000	105,000	12,964	92,036
Government Affairs	25,000	25,000	17,938	7,062
Fuel	50,000	50,000	9,014	40,986
Bank Charges	0	0	11,240	(11,240)
Co-op and Joint Powers Agreements	150,000	150,000	42,612	107,388
Total Expenditures	<u>2,845,638</u>	<u>2,845,638</u>	<u>1,629,323</u>	<u>1,216,315</u>
Excess (Deficiency) of Revenues Over Expenditures	(916,683)	(916,683)	503,821	1,420,504
Other Items				
Net Principal collected for the Conservation Loans	0	0	144,041	144,041
Cash Balance Beginning of Year	<u>4,693,610</u>	<u>4,693,610</u>	<u>4,693,610</u>	<u>0</u>
Cash Balance End of Year	<u>\$ 3,776,927</u>	<u>\$ 3,776,927</u>	<u>\$ 5,341,472</u>	<u>\$ 1,564,545</u>

Reconciliation of Budgetary Basis to GAAP Basis		
Excess (Deficiency) of Revenues Over Expenditures-Cash Basis	\$	503,821
Net Change in Interest Receivables -CD		(4,866)
Net Change in Interest Receivables -Conservation Loans		30,732
Net Change in Taxes Receivable		(88,584)
Net Change in Inventory		(10,809)
Net Change in Prepaid Expenses		30,732
Net Change in Meters		87,944
Net Change in Office Furnitue & Equipment		7,675
Net Change in Vehicles & Drilling Rig		41,705
Net Change in Accumulated Depreciation		(125,280)
Net Change in Accounts Payable		(171,548)
Net Change in Payroll Taxes Payable		86
Net Change in Compensated Absences		(6,384)
Excess (Deficiency) of Revenues Over Expenditures-GAAP Basis	\$	<u>295,224</u>

The notes to the financial statements are an integral part of this statement.



De'Aun Willoughby CPA, PC

Certified Public Accountant

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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
In Accordance with *Government Auditing Standards*

Mr. Hector Balderas
State Auditor of the State of New Mexico
Board Members of the PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT

Mr. Balderas and Members of the Board

We have audited the financial statements of the governmental activities, the general fund and the budgetary comparison of the Pecos Valley Artesian Conservancy District, (District), as of and for the year ended June 30, 2009, and have issued our report thereon dated September 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as item 09-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 07-01.

The District's response to the finding in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the New Mexico State Legislature and its committees, the Office of the State Auditor, the New Mexico Department of Finance and Administration - Local Government and is not intended to be and should not be used by anyone other than these specified parties.

De'Ann Willoughby CPA PC

September 14, 2009

PECOS VALLEY ARTESIAN CONSERVANCY DISTRICT
Findings and Responses
June 30, 2009

Prior Year Audit Findings

	<u>Status</u>
06-02 Procurement	Resolved
07-01 Lack of Pledged Securities	Repeated

Current Year Audit Findings

07-01 Lack of Pledged Securities-Compliance

Condition

The deposits held at 1st American were \$1,318,068 under secured by pledged securities.

Criteria

Pursuant to Section 6-10-16, NMSA 1978 and Section 6-10-17, NMSA 1978 securities with an aggregate value equal to one-half the amount of public money deposited shall be provided by the depository.

Effect

Under collateralization results in lack of guarantee of the District's money in case of bank failure.

Cause

The District did not adequately monitor the pledged securities. The District did meet with Bank officials. The bank representatives stated that the District's operating accounts are secure; however, the District's sweep accounts do not currently meet the State Auditor's criteria.

Recommendation

Management should monitor the depository's collateral and receive additional collateral when necessary.

Response

We notified the bank and received adequate pledged securities immediately.

09-01 SAS 112 Compliance

Condition

The auditors prepared the financial statements rather than management as required by Statement on Auditing Standards (SAS) 112.

Criteria

Statement on Auditing Standards (SAS) 112, Communication of Internal Control Related Matters Identified in an Audit, requires that management clearly accept responsibility for preparing all financial information and company's financial statements.

Effect

The District's management may not be able to detect errors in reporting or financial presentation if they exist. Management may not be qualified to review the financial statements prepared by the auditor.

Cause

The Districts staff has not been trained on Governmental Accounting Standards and related procedures to prepare financial statements.

Recommendation

We recommend that the employees who participate in the accounting function obtain training in governmental accounting and the preparation of financial statements.

Response

The District will continue to rely on the auditor to prepare the financial statements.

Financial Statement Preparation

The financial statements were prepared by De'Aun Willoughby CPA.

Exit Conference

An exit conference was held on September 14, 2009 present was Bill Netherlin-Chairman, Richard Smith-Member, Patty Barresi-Secretary and De'Aun Willoughby, CPA.